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DE RUEHKV #0936/01 1531000  
ZNR UUUUU ZZH  
P 021000Z JUN 09  
FM AMEMBASSY KYIV  
TO RUEHC/SECSTATE WASHDC PRIORITY 7885  
INFO RUCNCIS/CIS COLLECTIVE PRIORITY  
RUEHZG/NATO EU COLLECTIVE PRIORITY  
RUEHSW/AMEMBASSY BERN PRIORITY 0004  
RUEHKO/AMEMBASSY TOKYO PRIORITY 0020  
RUEHWL/AMEMBASSY WELLINGTON PRIORITY 0002  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 KYIV 000936

SENSITIVE  
SIPDIS

DEPT FOR OES, EUR, EEB

E.O. 12958: N/A  
TAGS: [EFIN](#) [EREL](#) [ETRD](#) [PGOV](#) [PREL](#) [XH](#) [UP](#)  
SUBJECT: UKRAINE CARBON SALES BOOST FINANCES, ENERGY  
INFRASTRUCTURE

¶1. (SBU) Summary. Needing to stave off Ukraine's budget crisis and simultaneously enhance the country's energy efficiency, Prime Minister Yulia Tymoshenko has supported selling 180 million metric tons of surplus carbon emissions rights to Japan, Switzerland, and New Zealand. Back-of-the-envelope calculations suggest that the GOU could generate over \$2 billion for energy efficiency projects if the sales go forward as part of a carbon-for-investment trade program. Since most investments have not been explicitly disclosed by the National Agency for Ecological Investments (NAEI), it is not clear whether the carbon funds can substitute for other budgeted revenues and help plug Ukraine's fiscal gap. End summary.

Carbon Takers: Switzerland and New Zealand  
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¶2. (SBU) The Cabinet of Ministers approved two separate deals to trade Ukraine's surplus carbon emissions on May 25. Resolution 549 "On Attracting Investments to Finance Projects that Decrease Green Gas Emissions" instructed the NAEI to sell 100 million Assigned Amount Units (AAUs) to the Swiss firm Dighton Carbon SA, as well as 50 million AAUs to New Zealand's Tawhaki International LP. This Kyoto Protocol-based transaction helps Tymoshenko fulfill her two-pronged strategy of boosting revenues and investing in improvements to Soviet-era energy infrastructure. (Note: An AAU equals one metric ton of carbon dioxide. Ukraine has pledged that monies earned under the Kyoto AAU trade system will be invested through clean energy "Green Investment Schemes." End note.)

¶3. (SBU) NAEI department head Taras Bebeszko commented to us that the GOU planned to spend the money from the New Zealand contract on landfills, waste processing plants, and district heating projects. According to public comments made by Minister of Housing and Municipal Services Kucherenko, proceeds from the Swiss contract will likely be spent on the reconstruction of waste water treatment facilities in Kyiv, Dnipropetrovsk, Zaporizhia, Vinnitsya, and Uzhgorod.

¶4. (SBU) Although the contract price for AAUs had not been disclosed by NAEI officials, Director of MGM International consultancy Vladislav Zhezherin said that AAUs sold to New Zealand and Switzerland would bring in 10 euros per metric ton of CO2. Observers have extrapolated that if AAU sales go forward, the GOU would stand to receive roughly \$2 billion. With the exception of UAH 100 million (\$13 million) projected in the budget for the reconstruction of municipal heat stations, it is not clear whether AAU generated funds would

go toward energy efficiency projects already foreseen in the 2009 budget. NAEI director Igor Lupaltsov noted to us, however, the GOU would "of course" seek to fund projects that were already in the budget.

#### Carbon Trade with Japan

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15. (SBU) Kyiv authorities began fulfilling Tymoshenko's AAU sales program earlier this year, after the GOU authorized NAEI to sign a two-year contract with the Japanese Organization on New Energy and Industrial Technologies Development. NAEI's Lupaltsov acknowledged that his agency had created a special foreign currency account in the Ukrainian ExIm Bank for the deal with Japan. The money would finance project investment, he stressed, rather than be used as direct budget support.

16. (SBU) Tymoshenko has said that Ukraine would sell 30 million AAUs to Japan in 2009 and 2010, a significant transfer to Ukraine's state treasury that will reportedly be used to refurbish thermal power and heat supply plants. The PM has noted that she had made energy savings, municipal heating, and alternative energy her primary investment priorities in the deal. Kyiv-based Japanese diplomat Megumi Osugi-Stepien confirmed to us that her government had supported the transaction, in part due to the Prime Minister's energetic espousal of the GOU's investment plans. On May 25, Kyiv authorities noted that \$171 million had been received from Japan. (Comment: It appears that this sum comports with the market rate for 15 million AAUs, equivalent

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to \$11.4 per metric ton. End comment.)

#### Future Prospects

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17. (SBU) Like other Kyoto signatories, Ukraine's AAU allotment is based on the country's greenhouse gas emissions figures from 1990. Whereas other states have seen their carbon emissions increase over the past two decades and are now struggling to meet Kyoto targets, Ukraine has seen its emissions drop as its industrial output has fallen considerably since independence. As a result, Ukraine has become a main beneficiary of the Kyoto Protocol's Annex 1 AAU trade policy.

18. (SBU) Ukraine may sell roughly one billion AAUs over the 2008-2012 period, according to NAEI's Lupaltsov, though it only began marketing and sales efforts in late 2008. Mykola Kudin, Deputy Head of the Ministry of Environment's Department on Air Protection and Climate Change, told us that the GOU had been in talks with at least four other countries. Meanwhile, Tymoshenko's government may already have moved forward with yet another deal. Media reports disclosed that on the sidelines of the May 27 carbon market conference in Barcelona, the World Bank reportedly signed a pact with Ukraine to buy 10 million metric tons of Kyoto carbon emissions rights worth up to \$140 million.

19. (SBU) Comment. While Tymoshenko touts her plan to increase Ukraine's energy efficiency, we suspect she is at least equally concerned with Ukraine's budget gap and falling revenue sources. Post has seen no quantitative estimation of energy savings that would be generated by proposed infrastructure investments. The real and immediate gains are more likely to be financial, and Tymoshenko's energetic approach to securing investors may have yielded propitious results. Back-of-the-envelope calculations suggest that if the funds raised for Green Investment Schemes can be substituted for already budgeted expenses, the GOU's AAU trading program could help reduce a fiscal deficit now estimated at roughly 4 percent of GDP.

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